

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LICKING	)	
VALLEY RURAL ELECTRIC COOPERATIVE	)	
CORPORATION FOR A GENERAL	)	CASE NO.
ADJUSTMENT OF RATES PURSUANT TO	)	2020-00338
STREAMLINED PROCEDURE PILOT	)	
PROGRAM ESTABLISHED IN CASE NO.	)	
2018-00407	)	

ORDER

On December 18, 2020, Licking Valley Rural Electric Cooperative Corporation (Licking Valley RECC), pursuant to the amended “streamlined procedure” established in Case No. 2018-00407,<sup>1</sup> filed an application seeking a general adjustment in its rates, with a proposed effective date of January 18, 2021. By Order dated January 15, 2021, the Commission accepted Licking Valley RECC’s application pursuant to the “streamlined procedure” established in Case No. 2018-00407. The Commission, pursuant to KRS 278.190(2), also suspended the effective date of the proposed rates for five months, up to and including June 18, 2021. In addition, the January 15, 2021 Order established a procedural schedule for processing this case. Pursuant to the streamline procedure, the Attorney General of the Commonwealth of Kentucky, through the Office of Rate Intervention (Attorney General) was made a party to the case.

---

<sup>1</sup> Case No. 2018-00407, *A Review of the Rate Case Procedure for Electric Distribution Cooperatives* (Ky. PSC Dec. 20, 2019).

The Attorney General is the only intervenor in the case. Licking Valley RECC responded to two information requests from Commission Staff and one information request from the Attorney General. On February 18, 2021, the Attorney General and Licking Valley RECC filed comments on Licking Valley RECC's application. On February 25, 2021, the Commission, by its own motion, issued an Order extending the 75-day review period for a final Order, as established by the streamlined procedure, to April 2, 2021. Also, on March 31, 2021, the Commission, by its own motion, issued an Order extending the 75-day review period for a final Order, as established by the streamlined procedure, to April 9, 2021.

### BACKGROUND

Licking Valley RECC is a nonprofit, member-owned rural electric cooperative corporation, organized under KRS Chapter 279. It is engaged in the distribution and sale of electric energy to 17,272 customers in Breathitt, Elliott, Lee, Magoffin, Menifee, Morgan, Rowan, and Wolfe counties, Kentucky.<sup>2</sup> Licking Valley Electric does not own any electric generating facilities and is one of the 16-member cooperatives that own and receive wholesale power from East Kentucky Power Cooperative. Licking Valley RECC's last general rate adjustment was effective March 1, 2017, in Case No. 2016-00174.<sup>3</sup>

### TEST PERIOD

---

<sup>2</sup> *Annual Report of Licking Valley R.E.C.C. to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2019* at 45 and 53.

<sup>3</sup> Case No. 2016-00174, *Electronic Application of Licking Valley Rural Electric Cooperative Corporation for a General Rate Increase* (Ky. PSC Mar. 1, 2017).

Pursuant to the streamlined procedures established in Case No. 2018-00407, Licking Valley RECC is using a historical test period for the year ended December 31, 2019.<sup>4</sup>

### LICKING VALLEY RECC'S PROPOSAL

Licking Valley RECC requests an overall increase of 2.21 percent, or \$595,560, to its revenue requirement to meet a Times Interest Earned Ratio (TIER) of 1.38 and to meet an Operational Times Interest Earned Ratio (OTIER) of 1.30.<sup>5</sup> Licking Valley RECC proposes to allocate 100 percent of the requested revenue increase to the residential rate class by increasing the residential customer charge and making no change to the residential energy charge. This proposal will increase the residential customer charge 22.07 percent, from \$14.00 per month to \$17.09 per month.<sup>6</sup> According to Licking Valley RECC, the effect upon the average bill for a residential customer using 969 kWh per month will result in an increase of \$3.09 or 2.88 percent.<sup>7</sup>

Licking Valley RECC states that the rate increase is necessary because its existing retail rates do not provide sufficient revenue to ensure necessary financial strength.<sup>8</sup> Licking Valley RECC asserts that since its last general adjustment to rates in 2016, it has experienced increased operating expenses coupled with flat customer and load growth.<sup>9</sup>

---

<sup>4</sup> Case No. 2018-00407, *A Review of the Rate Case Procedure for Electric Distribution Cooperatives* (Ky. PSC Dec 11, 2018) at 6.

<sup>5</sup> Application at 2, paragraph 5, and Exhibit 7, Direct Testimony of Kerry Howard (Howard Testimony) at 4.

<sup>6</sup> *Id.*

<sup>7</sup> Howard Testimony at 3 and Application, Exhibit 8, Direct Testimony of Sandra Bradley (Bradley Testimony) at 9.

<sup>8</sup> Application at 4, paragraph 7.

<sup>9</sup> *Id.*, Exhibit 1.

Licking Valley RECC also states that its existing rates do not align with its cost of providing service, making its margins more susceptible to volatility, and without an adjustment to its rates, Licking Valley RECC may not be able to meet its loan obligations and imperil its ability to provide safe and reliable service.<sup>10</sup>

Licking Valley RECC supports its proposed rate design by noting that the residential class is the only customer classification not recovering its own cost to serve, resulting in a cross-subsidization from all other customer groups.<sup>11</sup> Licking Valley RECC avers that that not only does the proposed rate design address subsidization between rate classes, but also addresses the imbalance within the current rate structure between the recovery of fixed and variable costs.<sup>12</sup> Pursuant to the streamline procedure, Licking Valley RECC filed an updated Cost of Service Study (COSS). Licking Valley RECC's COSS indicates that the average monthly residential customer-related cost is \$19.07 per month.<sup>13</sup>

#### INTERVENOR COMMENTS

The Attorney General requests that the Commission carefully review whether Licking Valley RECC has complied with the final Order in Case No. 2016-00174. The final Order expressed concern regarding salaries and wages paid to Licking Valley RECC's employees. The Attorney General points out that both salary and non-salaried employees received across-the-board average raises in 2017, 2019, and 2020, as well

---

<sup>10</sup> *Id.*

<sup>11</sup> Application, Exhibit 9, Direct Testimony of John Wolfram (Wolfram Testimony) at 23.

<sup>12</sup> *Id.* at 24.

<sup>13</sup> *Id.* and Exhibit JW-3 at 2.

as a \$300 bonus in 2018 and, as of January 2021, employees began receiving raises between 0.00 and 3.00 percent.<sup>14</sup> The Attorney General questions whether the awards indicate that Licking Valley RECC's revenues are sufficient and whether a rate increase is necessary.<sup>15</sup> The Attorney General further notes that some employees received large wage increases, questions whether this is an appropriate use of ratepayer funds, and encourages the Commission to evaluate Licking Valley RECC's salary and wage increases to ensure compliance with Case No. 2016-00174.<sup>16</sup> The Attorney General also expresses doubt regarding whether Licking Valley RECC has reined in expenses for employee benefits, as requested in 2016-00174, maintaining that the current employee contribution rates for health insurances is arbitrary and significantly less than the national average, and claims that the utility pays for overly generous life insurance plans.<sup>17</sup>

The Attorney General maintains that the Commission should evaluate whether savings associated with the recent deployment of the Advanced Metering Infrastructure (AMI) should be included in the instant case.<sup>18</sup> In particular, the Attorney General cites to Case No. 2016-00077,<sup>19</sup> where the Commission concluded that meter reading expense is a ratemaking item and should be addressed in a rate case, and notes that Licking Valley was unable to provide any attributable meter reading savings and that the same number

---

<sup>14</sup> Attorney General's Comments at 4.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 5.

<sup>17</sup> *Id.* at 6–7.

<sup>18</sup> *Id.* at 7.

<sup>19</sup> Case No. 2016-00077 *Application of Licking Valley Rural Electric Cooperative Corporation for an Order Issuing a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 10, 2017).

of meter readers is employed as was prior to when the AMI system was operational.<sup>20</sup> Furthermore, the Attorney General contends that Licking Valley RECC was unable to provide a dollar denominated savings to the ratepayer resulting from the installation of the AMI system.<sup>21</sup>

The Attorney General contends that the 22.07 percent increase to the residential customer charge is unreasonable.<sup>22</sup> The Attorney General recommends either placing the full increase on the residential energy charge or apply a more gradual two-phased approach for any increase in the residential customer charge.<sup>23</sup>

Finally, the Attorney General suggests that the Commission require Licking Valley RECC to reduce its miscellaneous expenses because, even though these expenses are excluded from rates, they are still being paid with ratepayer funds.<sup>24</sup> Specifically, the Attorney General argues that expenses not directly related to providing safe and reliable electric service such as gifts and items associated with the annual meeting should be reduced.

### Revenue and Expenses

Licking Valley RECC proposed ten adjustments to normalize its test-year operating revenues and expenses per the streamlined application. Through discovery, Licking

---

<sup>20</sup> Attorney General Comments at 8–9.

<sup>21</sup> *Id.* at 9-10.

<sup>22</sup> *Id.* at 10

<sup>23</sup> *Id.* at 10–11.

<sup>24</sup> *Id.* at 12.

Valley RECC modified the adjustment to rate case expense<sup>25</sup> and provided adjustments to long-term interest expense, wages and salaries, payroll taxes, and professional services.<sup>26</sup> The Commission finds that all of the adjustments proposed by Licking Valley RECC, including the modified adjustments, are reasonable and should be accepted without change.

Shown below are the Commission approved adjustments:<sup>27</sup>

Fuel Adjustment Clause	\$	(24,400)
Environmental Surcharge	\$	(1,259)
Rate Case Expenses	\$	(19,046)
Year-End Customer Normalization	\$	(5,214)
GTCC	\$	(989,382)
Health Insurance Premiums	\$	11,154
Depreciation Expense Normalization	\$	(5,873)
Donations, Advertising and Dues	\$	185,473
Director's Expense	\$	18,293
Life Insurance Premiums	\$	14,976
Long Term Interest	\$	42,241
Wages and Salaries	\$	14,690
Payroll Taxes	\$	(1,865)
Professional Services	\$	265
Prepay Fee	\$	(2,688)
Pole Attachments	\$	228
<u>Non-recurring Charges</u>	<u>\$</u>	<u>(14,532)</u>
 TOTAL	 \$	 (778,870)

As detailed later in this Order, the Commission made an adjustment to the prepay charge to recognize the updated cost support based on current expenses. Reducing the

---

<sup>25</sup> Licking Valley RECC's Response to Staff's First Request (filed Feb. 11, 2021), Item 27, Licking Valley RECC's Supplemental Response to Staff's First Request (filed Feb. 27, 2021), Item 27.

<sup>26</sup> Licking Valley RECC's Response to Staff's First Request (filed Feb. 11, 2021), Items 12, 13, 14, 15, 16, 17, 18, and 19.

<sup>27</sup> Licking Valley RECC's Response to Staff's Second Request (filed Mar. 18, 2021), Item 7, LVRECC\_Rev\_Req\_Revised.xlsx. Updated for Long Term Interest, Wages and Salaries, Payroll Taxes and Professional Services.

monthly Prepay Fee to \$3.00 results in a decrease of revenue of \$2,688. Also, as discussed below, the Commission will adjust the non-recurring charges to eliminate labor from the cost support calculations. This results in a decrease of other electric revenue of \$14,532. Finally, an adjustment of \$228 for the revised pole attachment fees, as discussed later, was made.

#### Pro Forma Adjustments Summary

The pro forma adjustments are found in Appendix A. The effects of the adjustments on Licking Valley RECC's net income results in utility operating margins of \$(298,636) based upon a total revenue of \$25,519,123, a total cost of electric service of \$25,817,759 and resulting net margins of \$(215,527).

#### Revenue Requirement

Licking Valley RECC's actual TIER for the test period was 2.05 and OTIER was 0.89.<sup>28</sup> Licking Valley RECC states that since its last rate case it has experienced stagnant customer growth and declining energy sales directly related to the poor economy in the service territory.<sup>29</sup> Licking Valley RECC maintains that management has closely monitored expenses so to minimize cost-escalation as well as implemented cost-cutting measures to serve its members more efficiently.<sup>30</sup> These measures include reducing costs in categories such as staffing (cutting overtime and maintaining headcount), extending lives of large vehicles, repurposing equipment such as regulators, transformers and breakers, improved right of way management, efficiencies gained through the

---

<sup>28</sup> Wolfram Testimony, Exhibit JW-2 at 1.

<sup>29</sup> Howard Testimony at 6.

<sup>30</sup> *Id.* at 5.



implementation of a new AMI system and office communication systems and reductions in advertising and donation expense.<sup>31</sup>

The Streamlined Rate Order set a cap on the amount of increase to the lower of an OTIER of 1.85 and the overall increase of 0.75 percent per year since the last rate increase. Pursuant to the annual rate increase cap, Licking Valley RECC proposed that the increase would be limited to an overall increase of 2.25 percent, or \$596,421, as under a 1.85 TIER the as filed revenue deficiency is \$1,095,880.<sup>32</sup> The Commission finds that because Licking Valley RECC last received a rate increase on March 1, 2017, the allowed increase should be capped at the lower of an OTIER of 1.85 and the overall increase of 3.00 percent. Based upon the pro forma adjustments found reasonable herein, the Commission has determined that an increase in revenues from base rates of \$795,228 would result in an OTIER of 1.58.<sup>33</sup> The Commission notes that given the information currently available, if Licking Valley RECC had filed as a traditional rate case and based upon an OTIER of 1.85, the increase would be \$1,025,946.

### Cost of Service

Licking Valley RECC filed a fully allocated COSS in order to determine the cost to serve each customer class. This COSS determined Licking Valley RECC's overall rate of return on rate base and the relative rates of return from each rate class and was used as a guide in the proposed rate design.<sup>34</sup> Having reviewed Licking Valley RECC's COSS,

---

<sup>31</sup> *Id.*

<sup>32</sup> Wolfram Testimony at 8.

<sup>33</sup> See Appendix A. Total increase from base rates differs due to rounding.

<sup>34</sup> Wolfram Testimony at 15.

the Commission finds it to be acceptable for use as a guide in allocating the revenue increase granted herein.

Revenue Allocation and Rate Design

Based on the results of the COSS, at current rates only the residential rate is providing less than the cost to serve while the other classes produce revenues in excess of their respective class cost to serve.<sup>35</sup> Licking Valley RECC proposed to apply 100 percent of the rate increase to the residential rate schedule. The revenue allocation is illustrated below:<sup>36</sup>

Rate	Return on Rate Base	Unitized Return on Rate Base	Return after Rate Revision	Unitized Return After Rate Revision
Residential – A	0.73%	0.20	2.14%	0.43
Small Commercial – B	7.37%	1.98	7.37%	1.49
Large Commercial – LP	31.36%	8.42	31.36%	6.35
Large Comm Rate – LPR	13.95%	3.74	13.95%	2.82
Lighting – SL	29.16%	7.83	29.16%	5.90
TOTAL	3.73%	1.00	4.94%	1.00

Licking Valley RECC asserts that the COSS supports a fixed monthly charge of \$19.07 for the residential class and with the current charge being below cost-based rates, there exists a significant under-recovery of fixed costs.<sup>37</sup> Licking Valley RECC states that the proposed residential monthly customer charge is a step towards closing the gap between the current rate and the cost-based rate.<sup>38</sup>

---

<sup>35</sup> *Id.* at 22 and Exhibit JW-3 at 1.

<sup>36</sup> Wolfram Testimony, Exhibit JW-3 at 1.

<sup>37</sup> Wolfram Testimony at 24.

<sup>38</sup> *Id.*

The Commission finds that the COSS supports the proposed increase to the residential class because, at the current rates, the residential class is contributing to the rate of return less than its cost to serve. The Commission gives substantial weight to the evidence from the COSS that indicates other classes are earning considerably more than the residential class relative to their cost of service. Regarding rate design, the Commission finds that, for an electric cooperative that is strictly a distribution utility, there is merit in providing a means to guard against revenue erosion that often occurs due to the decrease in sale volumes that accompanies poor regional economies, changes in weather patterns, and the implementation or expansion of demand-side management and energy-efficiency programs. These factors are present in this matter, and applicable to Licking Valley Electric. Again, the Commission gives considerable weight to the COSS, which supports a customer charge of \$19.07 and the proposed customer charge is within what is calculated in the COSS. However, in recent cases, the Commission has expressed its concern about the demand/customer expense allocations for the distribution plant classifications and the Commission's preference for the zero-intercept method.<sup>39</sup> For Licking Valley RECC's COSS, the zero-intercept analysis did not provide reasonable results for poles, towers, and fixtures (Acct 364), overhead conductors and devices (Acct 365), and underground conductors and devices (Acct 367) indicating little relationship between the number or cost of the poles or conductors and the number of customers and believes that increasing the customer charge based on an arbitrary allocation is unreasonable. Removing the customer related percentage for Accts 364,

---

<sup>39</sup> See Case No. 2020-00131 *Electric Application of Meade County Rural Electric Cooperative Corporation for an Adjustment in Rates* (Ky. PSC Sept 16, 2020), final Order at 12.

365, and 367 so that the allocation is 100 percent demand results in a monthly customer charge of \$12.99. Based upon the Commission-approved revenue requirement and increase of \$795,228 as well as the COSS estimated monthly customer charge as revised to remove the minimum system estimation, the Commission finds that the proposed increase to the customer charge to be unreasonable and that any increase should only be applied to the energy charge. Based upon Licking Valley RECC's average monthly usage of 969 kWh, the average monthly bill for residential customers will increase by \$4.13 from \$101.59 to \$105.72, or 4.06 percent.

#### Nonrecurring Charges<sup>40</sup>

The Commission has also reviewed Licking Valley RECC's nonrecurring charges. Following the Commission's recent decisions concerning special nonrecurring charges, the Commission finds that as personnel are paid during normal business hours, estimated labor costs previously included in determining the amount of nonrecurring charges should be eliminated from the charges.<sup>41</sup> By reflecting only the marginal cost of the service in the nonrecurring charges, Licking Valley RECC's rates will be more aligned with the principle of cost causation. Merely allocating a fixed expense of ordinary labor costs in special nonrecurring charges like disconnect or reconnect fees creates a mismatch between how a utility incurs expenses and how it recovers those expenses from customers. The Commission has reviewed Licking Valley RECC's nonrecurring cost

---

<sup>40</sup> 807 KAR 5:006, Section 9(2). A nonrecurring charge shall be included in a utility's tariff and applied uniformly throughout the area served by the utility. A charge shall relate directly to the service performed or action taken and shall yield only enough revenue to pay the expenses incurred in rendering the service.

<sup>41</sup> See Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

justification and has adjusted charges by removing field labor costs and CSR costs from the charges.<sup>42</sup> For nonrecurring charges that occur after normal business hours, the CSR labor cost were removed, as the Commission reasonably assumes that the CSR labor will be performed during normal business hours. These adjustments results in the following revised nonrecurring charges Licking Valley RECC should charge as well as a pro forma adjustment to other revenue of \$(14,531.60):

<u>Charge</u>	<u>Quantity</u>	<u>Rate</u>	<u>Revenue</u>	<u>Revised Rates</u>	<u>Revenue</u>	<u>Difference</u>
Reconnect Fee	1,414	\$24.00	\$33,936.00	\$17.40	\$24,603.60	\$(9,332.10)
Returned Check	268	\$30.00	\$8,040.00	\$10.60	\$2,840.80	<u>\$(5,199.20)</u>
					Adjustment	\$(14,531.60)

Licking Valley RECC also offers a voluntary prepay program. This program was first established in Case No. 2016-00077 and includes a monthly prepay service fee of \$3.60 which was calculated based on the assumption of funding the annual additional investment, specifically the investment in the AMI meter equipped with a disconnection feature as well as four monthly communication fee charges. Licking Valley RECC provided an updated Prepay Service Fee Charge of \$3.13; however, this increase includes labor charges for Field Service and Customer Service Representatives.<sup>43</sup> As explained above, the Commission has found that the inclusion of labor in such charges to be unreasonable. Removing the labor component lowers the Prepay Service Fee to

---

<sup>42</sup> Licking Valley RECC's Response to Staff's First Request for Information (filed Feb. 11, 2021), Item 23.

<sup>43</sup> Licking Valley RECC's Response to Staff's First Request for Information (filed Feb. 11, 2021), Item 26.

\$3.06 per month. The Commission finds that the estimate should be rounded to the nearest dollar amount and, therefore, finds that a monthly Prepay Service Fee of \$3.00 and a pro forma adjustment to revenue of (\$2,688.00) to be reasonable.<sup>44</sup>

#### Late Payment Charge

Licking Valley RECC assesses customers who pay their bill after the due date a late fee of 5.00 percent. This fee is intended to elicit customer behavior, is not cost based, and creates a hardship on customers that are already unable to timely pay for service. The evidence collected in Case No. 2020-00085 challenged the efficiency and efficacy of delayed payment charges to certain customers.<sup>45</sup> In the response to the Commission's Request for Information in Case No. 2020-00085, the data provided by many utilities demonstrated that the moratorium on late payment fees had no material effect on the percentage of customers paying on time. Based on the evidence that a delayed payment charge does not appear to have the intended impact on residential customers' behavior, the Commission has found that assessing a late fee for this reason to be unreasonable.<sup>46</sup> The Commission believes that insofar as a utility intends on continuing to charge a late fee for other purposes, such as recovering the cost driven by residential customers who pay after the defined due date, a utility should be given an opportunity to provide a cost justification for residential late fees. However, due to the financial situation of Licking

---

<sup>44</sup> *Id.*, revised to reflect \$3.00.

<sup>45</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (filed Sept. 21, 2020).

<sup>46</sup> See Case No. 2020-00174, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (4) All Other Required Approvals and Relief* (Ky. PSC Jan. 13, 2021), Order.

Valley RECC, the timing of the instant case, and the nature and guardrails of the pilot streamlined procedure, the Commission believes this matter is not the most-appropriate venue to address Licking Valley's residential late payment charge. Therefore, the Commission finds that Licking Valley RECC shall provide cost justification for the appropriate residential late payment charge in its next rate filing.

### Pole Attachment Fees

Pole attachment rates are calculated based on the formula prescribed in Administrative Case 251–42.<sup>47</sup> For Licking Valley RECC, the last time pole attachment rates were increased was in December 2009 in Case No. 2009-00016.<sup>48</sup> Licking Valley RECC provided a revised calculation noting that the composite per-unit costs have increased.<sup>49</sup> Licking Valley RECC responded to an email to Commission Staff and the Attorney General on March 24, 2021, that there are currently only two CATV providers with attachments. Licking Valley RECC also stated that due to an ongoing legal dispute between the two CATV companies, Licking Valley RECC did not receive any CATV pole attachment revenues for the test year but does expect payment once the legal dispute is resolved. Licking Valley RECC provided what the test year revenues would have been per attachment category.

The Commission is concerned that ratepayers may be subsidizing pole attachment rates, especially since the tariffed rates have not increased as Licking Valley RECC's

---

<sup>47</sup> Administrative Case No. 251, *The Adoption of a Standard Methodology for Establishing Rates for CATV Pole Attachments* (Ky. PSC Sept. 17, 1982).

<sup>48</sup> Case No. 2009-00016, *Application of Licking Valley Rural Electric Cooperative Corporation for an Adjustment of Rates*, (Ky. PSC Dec. 11, 2009).

<sup>49</sup> Licking Valley RECC's Response to Staff's Second Request for Information (filed Mar. 18, 2021), Item 6.

composite per-unit costs have. Therefore, the Commission finds it reasonable to increase the pole attachment charges based upon the test year expenses as well as make a pro forma adjustment of \$227.88 to other revenues.<sup>50</sup>

<u>Charge</u>	<u>Current Rate</u>	<u>Revised Rate</u>
Two-Party Attachment	\$5.42	\$7.44
Three-Party Attachment	\$4.78	\$6.08
Two-Party Anchor	\$5.76	\$7.98
Three-Party Anchor	\$3.80	\$5.26
Two-Party Grounding	\$0.27	\$0.21
Three-Party Grounding	\$0.16	\$0.13

<u>Charge</u>	<u>Quantity</u>	<u>Rate</u>	<u>Revenue</u>	<u>Revised Rate</u>	<u>Revised Revenue</u>	
Two-Party Attachment	76	\$5.42	\$411.92	\$7.44	\$565.44	\$153.52
Three-Party Attachment	35	\$4.78	\$167.30	\$6.08	\$212.80	\$ 45.50
Two-Party Anchor	13	\$5.76	\$74.88	\$7.98	\$103.74	<u>\$ 28.86</u>
				Adjustment:		<u>\$227.88</u>

### SUMMARY

By design, the Commission's streamline procedure limits increases, both in terms of OTIER, and relative to current rates on a percentage basis. Pro forma adjustments, such as those made for late fees and nonrecurring charges, typically are included in the test-year revenue requirement so that the utility can receive the lost income through its base rates and allow the utility to have a secure revenue stream related to service rendered. However, due to the Streamline Process being capped by a percentage increase, the Commission is limited in the inclusion of these pro forma adjustments. In

---

<sup>50</sup> Although the test-year does not reflect the pole attachment revenue, the adjustment is still warranted.



the instant case, Licking Valley RECC was capped at an increase of 2.25 percent above current rate revenues at the time of the application, but due to another year elapsing since the last rate increase during the processing of the instant case, this cap was increased to 3.00 percent for a total increase of \$795,228. As illustrated below, the pro forma adjustments made to other revenue falls short of the \$795,228. The Commission believes that the difference is negligible, and taking note of the Attorney General’s statement regarding excessive miscellaneous expenses, such expenses can be reduced to account for a \$16,992 shortfall.

Approved Revenue Increase	\$ 795,228
Nonrecurring Charges	\$ (14,532)
Prepay Fee	\$ (2,688)
Pole Attachment Fees	<u>\$ 228</u>
Net Increase	\$ 778,236
Allowed Increase	<u>\$ 795,228</u>
Difference	\$ (16,992)

The Commission recognizes the Attorney General’s concern regarding the compensation and benefits, evaluation of AMI savings, the changes to the customer charge, and use of ratepayer funds for miscellaneous expenses. The Commission also recognizes Licking Valley RECC’s cost containment measures in the midst of flat membership and flat sales growth.<sup>51</sup> The Commission evaluated the wage and salary study filed in response to discovery and, although some Licking Valley RECC employees have received increases that are greater than the annual across the board raises, most salaries are below national, state, and regional averages.<sup>52</sup> In addition, although Licking

---

<sup>51</sup> Licking Valley RECC’s Comments (filed Feb. 18, 2021) at 3–9.

<sup>52</sup> Licking Valley RECC’s Response to Staff’s First Request for Information (filed Feb. 11, 2021), Item 7.

Valley RECC did not reduce the number of meter readers, the utility has not replaced employees lost to attrition and has expanded the jobs of the meter readers.<sup>53</sup> And while Licking Valley RECC was somewhat slow in the implementation of shared contribution for health insurance premiums, steps towards reducing the utility's own cost have been made. The timing of the rate case in the midst of a pandemic is not ideal, but the effort for achieving and ensuring financial stability should not be penalized, as stability ultimately serves to benefit the utility's member-owners. The Commission reminds all parties that the purpose of the Streamline Pilot Program is to encourage electric cooperatives to seek more frequent, smaller rate increases.

However, even with the existence of the Streamline Pilot Program, at times, a full rate case may be warranted and the Commission is concerned about the long-term financial health of Licking Valley RECC. As noted earlier, had Licking Valley RECC filed a traditional rate case based upon an OTIER of 1.85, the increase would be \$1,025,946, a difference of more than \$200,000 annually. These margins are important to ensure an electric cooperative can meet the requirements imposed by its lenders and other financial obligations. Therefore, the Commission finds that Licking Valley RECC should file a general adjustment of rates, rather than an application pursuant to the Streamline Pilot Program, within one year of the date of service of this Order. The Commission urges Licking Valley RECC to continue evaluating cost containment measures and make prudent decisions to ensure the financial vitality of the electric distribution cooperative.

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

---

<sup>53</sup> Licking Valley RECC's Response to Staff's Second Request for Information (filed Mar. 18, 2021), Item 5.

1. The rates proposed by Licking Valley RECC should be denied.
2. Licking Valley RECC fixed prepay charge should be reduced to \$3.00 per month.
3. Licking Valley' RECCs nonrecurring charges and pole attachment charges should be revised.
4. Licking Valley RECC should file a general adjustment of rates within one year of the date of service of this Order.
5. The rates set forth in Appendix B to this Order are the fair, just and reasonable rates for Licking Valley RECC to charge for service rendered on and after April 9, 2021, and should be approved.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Licking Valley RECC are denied.
2. Licking Valley RECC shall file a general adjustment of rates within one year of the date of service of this Order.
3. The rates set forth in Appendix B to this Order are approved for services rendered by Licking Valley RECC on and after April 9, 2021.
4. Within 20 days of the date of entry of this Order, Licking Valley RECC shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and reflecting their effective data and that they were authorized by this Order.
5. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:

  
Linda C. Bidwell  
Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2020-00338 DATED APR 08 2021

Description (1)	Actual Test Year (2)	Test Year w FAC Roll-In (3)	Pro Forma Adjustments (4)	Pro Forma Test Yr (5)	Proposed Rates (6)
<u>Operating Revenues</u>					
Total Sales of Electric Energy	26,901,104	26,507,589	(1,385,320)	25,122,268	25,917,496
Other Electric Revenue	411,158	411,158	(14,304)	396,855	396,855
Total Operating Revenue	27,312,262	26,918,747	(1,399,624)	25,519,123	26,314,351
<u>Operating Expenses:</u>					
Purchased Power	17,295,450	17,295,450	(1,351,759)	15,943,691	15,943,691
Distribution Operations	1,675,700	1,675,700	-	1,675,700	1,675,700
Distribution Maintenance	2,673,625	2,673,625	-	2,673,625	2,673,625
Customer Accounts	818,498	818,498	-	818,498	818,498
Customer Service	28,218	28,218	-	28,218	28,218
Sales Expense	14,659	14,659	-	14,659	14,659
A&G	1,189,629	1,189,629	(222,009)	967,620	967,620
Total O&M Expense	23,695,779	23,695,779	(1,573,768)	22,122,011	22,122,011
Depreciation	2,597,183	2,597,183	5,873	2,603,056	2,603,056
Taxes - Other	37,061	37,061	-	37,061	37,061
Interest on LTD	912,037	912,037	(42,241)	869,796	869,796
Interest - Other	144,463	144,463	-	144,463	144,463
Other Deductions	41,372	41,372	-	41,372	41,372
Total Cost of Electric Service	27,427,895	27,427,895	(1,610,136)	25,817,759	25,817,759
Utility Operating Margins	(115,633)	(509,148)	210,512	(298,636)	496,592
Non-Operating Margins - Interest	33,083	33,083	-	33,083	33,083
Income(Loss) from Equity Investments	-	-	-	-	-
Non-Operating Margins - Other	-	-	-	-	-
G&T Capital Credits	989,382	989,382	(989,382)	-	-
Other Capital Credits	50,026	50,026	-	50,026	50,026
Net Margins	956,858	563,343	(778,870)	(215,527)	579,701
Cash Receipts from Lenders	12,016	12,016	-	12,016	12,016
OTIER	0.89	0.45		0.67	1.58
TIER	2.05	1.62		0.75	1.67
TIER excluding GTCC	0.96	0.53		0.75	1.67
Target OTIER	1.85	1.85		1.85	
Margins at Target OTIER	1,835,706	1,835,706		810,419	
Revenue Requirement	29,263,601	29,263,601		26,628,178	
Revenue Deficiency (Excess)	878,848	1,272,363		1,025,946	
Total Sales of Electric Energy	26,901,104	26,507,589		25,122,268	
Needed Sales of Electric Energy	27,779,952	27,779,952		26,148,214	
Increase	878,848	1,272,363		1,025,946	
Increase	3.27%	4.80%		4.08%	
Cap on Increase	3.00%	3.00%		3.00%	
Capped Increase Amount	807,033	795,228		795,228	
Permissible Increase	807,033	795,228		795,228	
Permissible Increase	3.00%	3.00%		3.00%	

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2020-00338 DATED APR 08 2021

The following rates and charges are prescribed for the customers served by Licking Valley RECC. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

SCHEDULE I – RESIDENTIAL, FARMS, SMALL COMMUNITY HALL & CHURCHES

Customer Charge per Month	\$14.00
Energy Charge per kWh	\$ 0.094652

PREPAY SERVICE

Customer Charge per Month	\$3.00
---------------------------	--------

NONRECURRING CHARGES

Reconnect Fee	\$17.40
Returned Check	\$10.60

POLE ATTACHMENT FEES

Two-party Attachment	\$7.44
Three-Party Attachment	\$6.08
Two-Party Anchor	\$7.98
Three-Party Anchor	\$5.26
Two-Party Grounding	\$0.21
Three-Party Grounding	\$0.13

\*L Allyson Honaker  
Goss Samford, PLLC  
2365 Harrodsburg Road, Suite B325  
Lexington, KENTUCKY 40504

\*Angela M Goad  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*John G Horne, II  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Larry Cook  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Mark David Goss  
Goss Samford, PLLC  
2365 Harrodsburg Road, Suite B325  
Lexington, KENTUCKY 40504

\*J. Michael West  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Licking Valley R.E.C.C.  
P. O. Box 605  
271 Main Street  
West Liberty, KY 41472